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STATEMENT OF
ELMER B. STAATS, COMPTROLLER GENERAL OF THE UNITED STATES
BEFORE THE
SUBCOMMITTEE ON ECONOMY IN GOVERNMENT
JOINT ECONOMIC COMMITTEE

TPT 00710

Mr. Chairman and Members of the Committee:

I am pleased to appear before this Subcommittee today. My statement will cover certain matters discussed in the November and December 1967 hearings and other significant areas in which we have been recently engaged.

1. Procurement
2. Uniform Cost Accounting Standards in Negotiated Defense Contracts
3. Government-owned Property Furnished to Contractors
4. Supply Systems
5. Property Accountability
6. Cost Reduction Program
7. Management of Automatic Data Processing Systems
8. Accounting System for Operations
9. Interagency Coordination to Improve Administration of Common Activities

Additional material relating to supply systems, civilian agency construction and other matters, is included in appendixes to this statement.

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[Significant Areas in Which GAO Has Been Engaged]

PROCUREMENT

The departments and agencies of the Government are awarding contracts at the current rate of about \$50 billion a year to procure property and services for use in their programs and activities. The Department of Defense alone is awarding contracts for weapon systems and related equipment and supplies at the rate of about \$43 billion annually. For fiscal year 1968 the Department of Defense reported that advertised procurement averaged 11.5 percent, competitive negotiation 30.6 percent, and single source negotiation 57.9 percent.

A comparison of this information with similar information for the previous four years shows a downward trend in the use of both formally advertised and competitively negotiated procurement procedures. The decline in competitive procurements during the past few years has been attributed to urgent procurements for the Southeast Asia conflict. Statistics relating to competitive and non-competitive procurement for the last five years are summarized in an appendix. In this connection, we believe that statistics on methods of procurement would be more meaningful to the Congress if they were more closely related to amounts of procurement susceptible to use of the particular method. That is, if DOD could segregate those types of procurements that even under optimum conditions would not be subject to formal advertising, the Congress would then be able to better evaluate the extent of procurements made under this method in light of urgency and other factors that may be involved.

On the basis of our recent reviews of single source or noncompetitive procurements we believe that significant progress has been made in improving the quality of contract pricing. We also believe that generally Government contracting officers are making a conscientious effort to negotiate fair and reasonable prices. Further, the scope and depth of DOD preaward audits has been improved.

However, our reviews have indicated that for various reasons preaward audits alone were not always effective in disclosing cost estimates that were higher than indicated by information available at the time of negotiation. Accordingly, we recommended and the Defense Contract Audit Agency established, a program for regularly scheduled postaward reviews of selected contracts.

On September 25, 1968, the President approved Public Law 90-512 introduced by you and Congressman Minshall which provides authorized agency representatives the right to examine all data related to the negotiation, pricing, or performance of contracts or subcontracts under which cost or pricing data is required. Also, the Department of Defense issued a Defense Procurement Circular dated November 30, 1967, which provided for the following:

1. Obtaining for agency officials the right of access to performance cost information.
2. Making postaward audits where contracting officers have reason to believe that cost or pricing data used in negotiations may not have been accurate, current and complete, or may not have been adequately verified.

3. Obtaining written identification of data submitted by the contractor in support of pricing proposals.
4. Revising the regulations to make it clear that the mere making available of data to the auditors without identification in writing does not constitute submission of data.

We believe that these actions are important improvements in the procurement process and with effective implementation should provide needed assurance as to the reliability of cost or pricing data used in contract pricing.

In the future we plan to examine into the reasonableness of prices established for selected contracts as well as review the overall effectiveness of DOD's pricing policies and procedures. We are presently making a study of problems being encountered by agency officials and by contractors in fulfilling the requirements of the current DOD directives and instructions. We believe that every effort should be made to avoid burdensome requirements that are not essential to the negotiation of fair and reasonable prices.

Contractor profits

In any discussion of profits, we believe it is important to make a clear distinction between contemplated profits agreed upon in negotiations, and actual profit subsequently realized.

Generally, we have not attempted to evaluate the reasonableness or adequacy of profits which have been agreed upon in negotiations. However, we believe it is important that profits be sufficient to maintain a healthy defense industry and encourage contractors to undertake Government work and

provide them with financial incentives to perform in an efficient and economical manner.

In August 1966 we were requested by the Chairman of the House Committee on Appropriations to review the administration of the weighted guidelines and to inform the committee whether there had been an increase in the profits agreed upon during negotiations since the advent of this method of computing profit objectives, and, if so, whether the increase was warranted. This study which we concluded in early 1967, related to the negotiated or going-in profits as distinct from actual profits realized in contract performance.

We reported to the Committee that a comparison of the average profit rate negotiated in the five-year period preceding the establishment of the weighted guidelines with the average profit rate negotiated on 200 contracts during the last six months of 1966, showed an increase from 7.7 percent to 9.7 percent. Our review covered more than \$2 billion worth of negotiated procurement. This increase of 2 percentage points in the rate of profit, applied to total negotiated procurement subject to the weighted guidelines in fiscal year 1966, could have resulted in the negotiation of about \$270 million in additional profit and fee allowances for that fiscal year. We observed, however, that the objective of widening the profit ranges for the various types of contracts and departing from the historical pattern of fees so as to recognize differences in contractors' assumptions of risks, in performance, and in complexities of tasks undertaken, had not been achieved. We did not obtain information on realized profits on the contracts we reviewed.

With respect to the weighted guidelines, we believe there is a need to revise the profit factor relating to

contractors' investments in facilities and operating capital to be used in the performance of Government contracts. The LMI profit study, which I will refer to later, also points out the need for such a revision.

The weighted guidelines provide for a reduction in profit or fees of as much as 2 percent, depending on the extent of reliance on Government-furnished facilities. Contractors who provide their own facilities receive a zero percentage for this factor--that is, they incur no penalty. However, the weighted guidelines do not distinguish between contractors who purchase their facilities outright and contractors who lease them. The means used by contractors to acquire their facilities could have a significant effect on Government costs. Last month, this matter was the subject of a report we made to the Congress.

In that report, we presented our findings on a review of the leasing of land and buildings by 13 major contractors at 16 plant locations where sales to the Government averaged over 95 percent of their total operations. About 25 percent of the facilities at these locations were rented under 63 leasing agreements for initial periods ranging from 2 to 25 years. Including periods of renewal options the terms of the leases ranged from 8 to 55 years.

We estimated the acquisition cost of the leased facilities to amount to about \$84 million. By the end of the current lease periods, i.e., the period for which the contractors are now contractually obligated, the contractors will have paid or obligated themselves to pay, \$108 million in rentals, or about \$24 million more than the acquisition cost of the facilities.

Had the contractors purchased the land and the buildings, the acquisition cost recoverable under Government contracts would have been limited to depreciation. We estimated that depreciation through the current lease periods would amount to about \$38 million, or \$70 million less than the rentals. Based on the present ratio of the contractors' Government business to their total business, the Government's share of the rental costs in excess of depreciation would be about \$67 million.

If all renewal options were exercised the Government's share of the resulting excess rental cost over depreciation would be about \$100 million. At the time of our review of the 63 lease agreements, 23 leases had come up for renewal and were renewed.

Although the Armed Services Procurement Regulation recognizes the full amount of rental costs of land and buildings as an allowable charge to Government contracts, it limits the amount for purchased facilities to the ownership costs of the buildings, exclusive of land and interest paid to finance the acquisition. Land is not recoverable as a contract cost because it is not susceptible to depreciation.

There are several other considerations aside from recoverable cost such as the required initial investment which could influence contractor decisions to lease rather than to purchase facilities. In view of the additional cost which is borne by the Government when contractors lease, however, we believe it is appropriate to consider amending the current profit guidelines to offer a greater profit to contractors who purchase facilities rather than lease them.

With respect to actual profits realized, we feel it is important that information on the trends as to profits realized by different industries on various types of contracts be available for study and for use in evaluating the effectiveness of the types of contracts used. In this connection, we know of no complete and comprehensive study that has ever been made on profits actually realized by defense contractors. During the past several years limited studies of reported profits realized have been made by the Logistics Management Institute (LMI) and by Dr. Murray Weidenbaum of Washington University at St. Louis. These studies were approached from different viewpoints and the results are neither comparable nor complete.

The Department of Defense does not obtain complete information as to profits under firm fixed-price contracts. LMI proposed that consideration be given to obtaining data on negotiated firm fixed-price contract performance costs to evaluate the application of the weighted guidelines to this type of contract. During the fiscal year 1968, firm, fixed-price contracts, both negotiated and advertised, constituted about 53 percent of total expenditure for defense procurements.

As pointed out, Mr. Chairman, in your letter of October 10, 1968, to the Secretary of Defense, any profit review to be effective should

include realized profit data on firm fixed-price contracts since this represents such a significant percentage of defense procurement. Your letter also discussed the limitations of the IMI and Weidenbaum studies and specified certain types of information which should be obtained in order to develop a comprehensive and complete study of realized profits. We are in agreement with the views expressed in your letter and believe that they will provide the basis for a more realistic profit study.

Competition in Procurement

In our appearance before the subcommittee in May 1967 we discussed competition in civilian agency procurements and cited examples of how more effective competition might have been achieved had formal advertising been used rather than negotiation. We are continuing to review situations where the need for more competition in procurement is indicated and we believe that our efforts are having an effect.

We are still finding instances of negotiated procurement by GSA where conditions are favorable to the use of formal advertising. Procurement of light bulbs and tubes, as discussed in our report to the Congress, B-163349, March 20, 1968, is a case in point.

Federal agencies are purchasing annually about \$30 million worth of light bulbs and tubes under negotiated Federal Supply Schedule contracts. To obtain an indication of the savings that might be achieved by advertising, we compared the prices obtained by GSA for selected items that account for annual purchases of \$13 million with the prices obtained by a state government under advertised contracts. For the selected items, we estimated that savings of at least \$1.7 million or about

12 percent could be realized. To the extent that price reductions can be realized through formal advertising for other items, additional savings would result.

GSA has advised us that, in response to our recommendation, formal advertising will be used for the bulk of the Government's light bulb and tube requirements.

Incidentally, we have been informed by GSA that the change over from negotiated procurements of goods and services to advertised procurements has been delayed in some cases by inadequate Federal specifications. The Administrator has told us that budget restrictions may prevent the allocation of sufficient resources to perform work on additional items so as to permit a change to advertised procurement within desirable time frames.

In another matter concerning GSA procurement, we found that adequate steps had not been taken to foster competition among possible suppliers of propane to the Kincheloe Air Force Base. We discussed with GSA officials various means by which competition might be encouraged among propane suppliers, primarily through tailoring contract terms to bring them in line with industry practices and with the specific needs of the using activity. GSA contract terms were revamped and Kincheloe's fiscal year 1968 propane requirements were formally advertised. The price obtained was 27 percent lower than the previous negotiated price, representing a reduction of about \$144,000. The Administrator of General Services said that it was likely that the 1969 contract would be even more advantageous.

We have also found instances where savings could have been achieved through procurement direct from suppliers rather than through prime contractors.

As an example, two contracts we reviewed showed that FAA which had a policy of procuring electronic test equipment for its air navigation and air traffic control systems as part of its contracts for basic systems, paid a total of about \$539,000 for test equipment which the contractors for basic systems purchased for about \$419,000. FAA has now revised its policy to permit in appropriate circumstances the breakout of test equipment, spare parts, etc., from proposed basic contracts.

In another case we found that at NASA's Kennedy Space Center in Florida, security guard and fire protection were being provided through subcontracts under a support service prime contract. Our review showed that the Space Center was maintaining operational control over the sub-contracted services, and it appeared to us that it would be less costly for the Center to contract directly for these services. We suggested that NASA look into the matter which it is now doing as part of a larger study of support service costs at the Space Center.

UNIFORM COST ACCOUNTING STANDARDS IN NEGOTIATED DEFENSE CONTRACTS

As you know, Mr. Chairman, the Defense Production Act of 1950 was amended earlier this year to provide that the Comptroller General undertake a study to determine the feasibility of applying uniform cost accounting standards to be used in all negotiated prime contract and subcontract procurements by the Department of Defense in excess of \$100,000.

In keeping with the provision of the law, I have appointed a special assistant to devote full time to the project until it is completed. Also, we have formed a coordinating committee composed of representatives of GAO, Department of Defense, and the Bureau of the Budget. Further, we have, as the law provides, had consultations with representatives of nine national accounting and industrial associations. With few exceptions, all of these associations are participating, in some manner, in the feasibility study. In addition, special consultants are making conceptual studies on cost accounting standards.

As part of our endeavor, we expect to elicit from industrial firms--several hundred Government contractors and firms performing no Government work--information on cost accounting methods and practices. This will be done through the use of a questionnaire which we are presently developing.

The draft questionnaire will be submitted for comment to participating trade associations, professional accounting organizations, and the coordinating committee. Upon receipt of their replies, we plan to make a limited test of the practicability of the questionnaire by submitting it to a few industrial organizations. Before I approve the questionnaire, Mr. Chairman, we plan to meet with either you or members of your subcommittee staff to discuss the current status of our study, and to review the questionnaire with you.

GOVERNMENT-OWNED PROPERTY FURNISHED TO CONTRACTORS

During the period following the hearings before the subcommittee in November and December, 1967, the Department of Defense has taken a number of actions designed to implement its announced policy to divest itself to the maximum practicable extent of its large inventory of Government-owned production equipment now located in contractor-owned facilities. Most of these actions can be directly associated with specific recommendations of this Subcommittee and the House Appropriations Committee. Also, the actions are generally in line with the principal objectives of the legislation you introduced, Mr. Chairman, on March 8, 1968, S.3122.

Instructions published in Defense Procurement Circular No. 61, June 10, 1968, require that maximum reliance be placed on the use of privately-owned production equipment in connection with the performance of defense contracts. The authority to acquire or provide production equipment for contractors has been restricted to very limited circumstances. Equipment having a unit cost of less than \$1,000 can no longer be furnished to contractors for any purpose. The procurement circular also increases the monthly rental rate for equipment less than three years old. With respect to equipment that is modernized or replaced by the Government, a requirement has been placed in the Armed Services Procurement Regulation for a contract clause under which the contractor would agree to return to the Government the net savings actually realized from the use of modernized or replaced equipment. DOD has been conducting a test at 20 contractors' plants to study the feasibility of maintaining records of equipment utilization on a machine-by-machine basis.

The results of the test are expected later this month. Also, the DOD reconciliation program to bring contractor-held inventories in line with records maintained at the Defense Industrial Plant Equipment Center is nearing completion.

The DOD actions discussed above deal primarily with equipment furnished to contractors to increase their production capacity to meet urgent military needs.

There is also another program under which the DOD has furnished equipment to contractors to modernize or replace previously provided Government-owned equipment, but under different and less restrictive criteria. On September 30, 1968, in Defense Procurement Circular No. 63 the policy of the Department of Defense relating to facilities made available under this program was revised to require basically the same criteria for furnishing facilities for expansion, replacement, and modernization as those now applied to facilities initially furnished as essential for performance of contracts for urgent military needs.

After sufficient time has elapsed, we plan to evaluate the effectiveness of the actions taken by DOD. Also, as recommended in your April 1968 report, we are continuing to investigate the adequacy of controls, including those applicable to property held under contract with agencies other than DOD.

SUPPLY SYSTEMS

Review of the Supply System in the Far East

In the November 1967 hearings, we discussed the work which the GAO had done with respect to responsiveness of the military supply systems to increased demands generated by the Southeast Asia conflict. We included information about certain aspects of the Army's supply system in Vietnam which we were then reviewing. Subsequently in our report to the Congress (B-160763, June 21, 1968), on the "Need to Improve Management of Army Supplies in Vietnam," we expressed the opinion that the Army Supply System had been responsive to the combat needs of the military units in Vietnam, but that the high level of support had been achieved through costly and inefficient supply procedures.

Selected reviews conducted subsequent to the above efforts, and observations recently made by members of our staff during visits to the Far East indicate that there is still a need for much improvement in efficiency and economy in the military supply system. We believe a significant problem continues to be the lack of reliable data on which to base supply decisions.

During our review of the management of Army supplies in Vietnam from September 1967 through December 1967, we also concluded that the identification and prompt redistribution of large quantities of excess materials in Vietnam warranted additional management attention. Subsequently, we learned that the Pacific Utilization and Redistribution Agency, (PURA) was established by the Secretary of Defense on November 24, 1967.

PURA, which is located at Okinawa, is responsible for obtaining monthly lists of excesses from all services and for circulating these lists to all service installations in the Pacific area for screening. Materials which

are not redistributed in the Pacific area are to be reported to appropriate inventory control points in the United States for further screening.

In view of the supply problems, such as (1) the substantial numbers of items out of stock, (2) erroneous stockage levels, (3) lack of effective management data, and (4) use of apparently excessive numbers of high priority requisitions, which still appear to exist in the Far East, we plan to make a follow-on review beginning late in fiscal year 1969. We plan to examine more fully into the causes of current supply problems to better identify actions required at each level of command to accomplish significant long range improvement.

In a separate but related area, we reviewed GSA's effectiveness as the primary source of supply for a broad range of common-use supplies and equipment items essential to the overseas efforts of the Department of Defense and the Agency for International Development. GSA's export sales to overseas customers now exceed \$300 million per year.

GSA's Region 9, headquartered in San Francisco, was selected for our review because it is the largest GSA export region and is a major supply point for military and civilian customers in Southeast Asia.

We traced a sample of 6,400 requisitions through all regional and depot processing phases, and found that Region 9 filled only 12 percent of the sample requisitions within the time standards specified by the overseas requisitioners. Based on our findings, we concluded that Region 9's low effectiveness was due to the fact that operations were not geared to meet overseas customers' demands, which had increased significantly in recent years because of the Southeast Asia conflict. We further concluded that there was a need to (1) revise certain operating policies and procedures; (2) improve the management information system; (3) exercise management controls over the use of high

priority requisitions; and (4) evaluate the supply source processing time standards. Accordingly, we made eight specific recommendations for major improvements in the areas mentioned above. GSA has taken or is moving toward taking actions in line with our recommendations and its performance reports show a marked improvement in the on-time effectiveness of its export supply operations.

We also reviewed transportation and traffic management activities of DOD in the Far East and Southeast Asia. We found that the difficulties which caused significant delays in the delivery of supplies to Vietnam from the United States and intra-theater supply sources during the earlier military buildup had been greatly alleviated. We noted that the military transportation organizations responsible for the actual sea and airlift of supplies to Southeast Asia were generally responsive to the demands and needs of the individual military services.

We did find, however, that space on aircraft of the Military Airlift Command was not being fully utilized. We estimate that during the period July 1, 1965 through October 31, 1966, there was sufficient unused space on aircraft to accommodate about 21 million pounds of additional cargo from Travis Air Force Base. Although critically needed and paid for, cargo space valued at about \$15 million was not used.

We brought our findings to the attention of the Secretary of Defense and made recommendations which we felt would improve aircraft utilization. We also reported this matter to the Congress in May 1968 (B-157476). As a result of the actions subsequently taken by the Secretary of Defense, we believe savings in excess of \$7 million will be realized over the next 12 months.

We also identified numerous other areas that we feel offer opportunities for significant savings. These areas include: (1) the possibility of

reducing port handling costs on surface shipments destined to Clark Air Force Base, Philippines; (2) the reduction of excessive airlift between Japan and Korea; (3) the need to establish a satellite printing plant in Vietnam; (4) the possibility of transporting printed matter to Southeast Asia by less costly mode; and (5) the need for better estimates of airlift requirements.

So much for the Far East.. We would now like to briefly bring you up to date on the significant developments in other supply reviews since we last appeared before this Subcommittee.

Army Logistics Structure

First, in May and November 1967, we discussed with you certain problems involving the Army's logistics structure. We stated that we had proposed that the Army establish a comprehensive reporting system designed to furnish Army Materiel Command inventory managers with worldwide asset data. At that time, the Army Materiel Command had control of stocks only in United States depots. Inventory managers who were responsible for procurement redistribution, disposal and maintenance actions had little or no knowledge of assets outside U. S. Depots.

Subsequent to the 1967 hearings, the Army has taken certain measures designed to improve its supply system. In May 1968, it put into effect a program whereby the Army Materiel Command would assume control of approximately 1,700 high-value secondary items located in overseas depots. The Army plans, in March 1969, to evaluate the program to determine whether it should be expanded to include additional items. We are of the opinion that this action should provide inventory managers with current and complete data on certain items so that better choices between available alternatives such as procurement, rebuild or redistribution can be made.

In addition, the Army has various other programs underway that are designed to effect improvements in its overall supply structure. Some of these programs are (1) a standard data processing system for national inventory control points in the United States, (2) a standard data processing system for inventory control by Army areas in the United States, and (3) a standard data processing system for the field units. Also, the Army is in the process of reorganizing its logistics structure in Europe. We intend to follow developments in this area, and to evaluate in future reviews the effectiveness of actions taken by the Army.

Inventory Controls

Second, in November 1967, the Subcommittee expressed interest in the causes and solutions to the frequent and voluminous adjustments required to bring stock records into agreement with actual quantities on hand, as disclosed in our report on improved inventory controls needed for the Departments of the Army, Navy and Air Force, and the Defense Supply Agency (B-146828, dated November 14, 1967). Our review indicated that one of the primary causes of stock inaccuracies was a breakdown in the control over processing receipts and establishing warehouse locator records.

We subsequently initiated a detailed review into the policies, procedures and practices used by the military services and the Defense Supply Agency relative to the receipt and storage of materiel and into the processing of related transaction documents affecting the inventory records. As a result of this review, we have concluded that the military departments and the Defense Supply Agency could achieve improved stock

record accuracy and supply efficiencies through improvements and standardizations in the policies, procedures, and controls relative to the processing, storage, and recording of materiel receipts. We have identified certain control features and procedures which, in our opinion, if applied consistently at all depot and inventory control activities, will improve stock record accuracy.

Further, an Inventory Study Group, composed of representatives from each of the military services, the Defense Supply Agency and the Logistics Management Institute was chartered in December 1967 in response to a recommendation in our November 1967 report on improved inventory controls needed within DOD and the interest expressed in this report by the Joint Economic Committee. The objective of the study group was to find solutions to inventory control problems cited in our report and to make recommendations that will correct the conditions uniformly throughout the Department of Defense.

The findings, conclusions, and recommendations of the DOD Study Group were published in April 1968 in a report entitled "Report of the Department of Defense Special Study Group on Inventory Controls." This report contains over 50 recommendations for improvement of inventory accuracy and increased supply responsiveness which, when implemented, will provide a basis for significantly improving the management and control of the large inventories maintained by the Department of Defense.

Savings Available to the Government Through
Elimination of Duplicate Inventories

And last, in the area of supply management, we reported to the Congress in B-146828, dated May 16, 1968, that Navy wholesale inventories

and similar GSA stocks held for Navy use unnecessarily duplicated each other. This practice which results in duplicate management and warehousing functions in the Government supply system as a whole, does not extend to the Army and the Air Force, and arose because the Navy did not believe it would be feasible for ships and overseas bases to submit requisitions for GSA items direct to GSA bases. We stated that the "wholesale level" stocking of the same items by both the Navy and GSA was not, in our opinion, consistent with supply management economy and effectiveness and we concluded that inventories valued at \$8.5 million as of December 31, 1966, and associated management and warehousing functions could be eliminated from either the Navy's or GSA's wholesale stocks. We also concluded that, to the extent the duplication of stock could be eliminated, the Government would realize not only increased efficiencies in stock management and distribution of material but also annual recurring savings of up to \$940,000.

Officials of both DOD and GSA recognize that duplications exist in the current Navy system and have indicated a readiness to participate fully in the joint efforts that will be required to correct the situation. We therefore recommended that the Secretary of Defense and the GSA Administrator jointly establish a working group to formulate the policies and procedures to eliminate the duplicative levels of stock. We recognize that there are many factors to consider, such as Navy requisitioning procedures and the location of certain stock. At a later date, we plan to evaluate the effectiveness of the actions taken.

PROPERTY ACCOUNTABILITY

In a very important area--that of property accounting--we found instances where NASA's accounting control over equipment and material essential to its activities had been inadequate.

For example, we found that NASA's recorded equipment inventory of \$274 million applicable to the Goddard Space Flight Center and its tracking data acquisition installations throughout the world did not, as late as September 1967, include equipment worth \$9.3 million located at a tracking station at Goldstone, California, which became operational in January 1967. Further, Goddard, at the time of our review had not taken action to locate 1,277 items of equipment valued at about \$1.7 million that had been listed as missing at Goddard and at 13 other locations as of March 31, 1967. We noted also that the NASA internal auditors had brought the need for better control of equipment to the attention of officials several years before.

NASA agreed with our recommendations concerning equipment accountability and is actively working toward their full implementation.

In a case where a contractor was doing work on the Saturn/Apollo program, his material accountability was faulty and NASA did not take the necessary measures to effect improvements. As a result of our work, orders for at least \$300,000 in material were canceled because it was shown that the material was already on hand. Also, NASA agreed with our suggestions for improvements in its procedures and practices for ensuring the adequacy of contractor property control systems.

COST REDUCTION PROGRAM

An area of special interest to us is the President's Cost Reduction Program. In March of this year, I sent a letter to the heads of departments and selected agencies to express our interest in this Program and inform them of our plans to review, on a selected basis, the following aspects:

- Status of implementation of the cost reduction program.
- Criteria for measuring savings, including reasonableness, application of prescribed criteria, and consistency among and within the agencies in applying the criteria.
- Criteria and procedures for measuring changes in productivity.
- Responsibility and procedures for validation of savings and improvements reported, including testing of savings reported.
- Procedures for dissemination of useful information regarding cost reduction programs, especially concerning those practices and techniques which are susceptible to wide use in Government.

We are currently reviewing the Cost Reduction Programs in the Department of Defense, Department of Agriculture, Department of Interior, General Services Administration, and Agency for International Development. We plan to issue an overall report to the Congress on the results of our reviews in the spring of next year. We are discussing and bringing to the attention of agency officials areas in which the Program can be improved during the course of our audits in order that immediate improvements can be made.

We are maintaining close liaison with the President's Advisory Council on Cost Reduction and the Bureau of the Budget in efforts to achieve our common objective--to strengthen and improve the Program--especially in view

of the continuous increase in the scope and cost of Federal Government activities. To assist the departments and agencies in achieving effective internal review programs, we prepared for their consideration minimal standards for the audit or verification of reported savings under the President's Cost Reduction Program.

In view of the significance and long-range nature of the President's cost reduction and management improvement programs, we plan to continue work in this area as found necessary in the circumstances.

MANAGEMENT OF AUTOMATIC DATA PROCESSING SYSTEMS

During the last several years, hundreds of millions of dollars have been spent by the Department of Defense in the development and acquisition of automatic data processing systems in support of Defense Department management operations. This past winter, at the request of the House Committee on Appropriations, we reviewed the practices of DOD components in acquiring and installing new ADP equipment for use in computerized management systems. The results of that review, and information developed by the Committee in subsequent hearings, indicated that the degree of control over the planning, development, and installation of the equipment for these systems varies widely. Our study showed that there was a general lack of coordination and planning within and among the Services and/or Defense Agencies relating to the adaptability of the various management systems to one another and that the Office of the Secretary of Defense had permitted the Services and Defense Agencies to develop management systems unilaterally and independently.

Our review disclosed further that, in general, these ADP systems were designed and installed largely without first making thorough studies of the operating function they were to serve.

Following the report on our review and the intensive consideration given this subject by the above Committee, all of the services' secretariats established planning and review groups for the better management of these systems. In its report on the Defense Appropriation Bill, 1969, the Committee summed up its comments by stating:

"Although pleased with the effort that is being put forth in the review and control of these management systems, the Committee believes that until such time as these newly established offices have had an opportunity to review the various systems now in existence and those being planned for the future, expansion of all systems should be held in abeyance."

The enormous growth in the number of computers now in use by Federal agencies carries with it a greatly increased cost of maintenance. As a rule, most agencies have routinely obtained maintenance services from the equipment manufacturers with little attention given to establishing an in-house capability for this maintenance.

Following our recent study of the maintenance practices of the Federal agencies, we concluded in our report, B-115369, April 3, 1968, that there is need for more management attention and policy guidance toward ascertaining the most efficient, effective, and economical methods of maintaining Government-owned computers. Subsequently, we have been advised that in response to our recommendations, the Bureau of the Budget is taking steps to amend its Circular No. A-54 to ensure that agencies give appropriate consideration to the use of in-house maintenance. Also, the General Services Administration has accelerated its study to identify the optimum alternative means, in terms of cost, for maintenance of ADP equipment and, in addition, it plans to issue a Federal Property Management Regulation containing some initial interim guidelines to assist agencies in their evaluation of alternative means of maintenance. These guidelines will cover the factors brought out in our report.

ACCOUNTING SYSTEM FOR OPERATIONS

As you know, the Department of Defense has had under development for some time, a revised system for internal budgeting and accounting for operations of the active forces. It has been developed to meet certain fundamental management requirements and to correct the most important deficiencies in the existing system. Basically the system attempts to create greater visibility of the total expense of operations.

Implementation of this system began this fiscal year. Our present effort is to assist the Department of Defense in the implementation of this new internal budgeting and accounting system for operations and includes survey and assistance work at 45 selected sites in the military services and the Defense Agencies through our regional offices and overseas branches. In addition to our regional office work, members of the Washington staff are participating in the Department of Defense survey team which is staffed by personnel from the Office of the Assistant Secretary of Defense (Comptroller), the Bureau of the Budget, the General Accounting Office, and the military services. Further information on the new DOD accounting system is furnished in an appendix.

INTERAGENCY COORDINATION TO IMPROVE
ADMINISTRATION OF COMMON ACTIVITIES

At the May 1967 hearings, we discussed the benefits of closer coordination between agencies and presented examples of opportunities for savings in situations where the program of one agency could be modified so that it would also serve the needs of another.

We reported to the Congress in B-162902, January 10, 1968, on another such case. We found that in 1963 the DOD and NASA entered into an agreement that photographic capabilities of the Air Force Eastern Test Range and those at NASA's Kennedy Space Center would be coordinated so as to avoid or minimize duplication. Capabilities at each installation are furnished by separate contractors.

Despite the agreement in 1963, NASA began in 1964 to expand its capabilities and in a large sense to duplicate services already existing at the Air Force Eastern Test Range. We made a review of the matter of duplication, particularly the utilization of personnel and equipment by the separate contractors. We concluded that the separate operations could be consolidated with more economy and more efficient utilization of personnel and equipment.

At our suggestion, a joint study group looked into the matter and we have been informed that a consolidation plan was proposed that if implemented could reduce costs by \$1.4 million annually, decrease current staffing and reduce equipment level of the two installations by \$1.6 million. The consolidation using a single contractor is scheduled to be in full effect by January 1, 1969.

We also made a study of the freight shipment consolidation procedures and practices of several Government military and civil agencies, and a representative number of commercial firms. The study was made to determine whether it would be feasible for military and civil agencies of the Government to cooperatively initiate, manage, and use a Government-wide system of freight shipment consolidation based on commercial practices, and whether such a system would result in significant savings and other benefits to the agencies without interfering with their normal service requirements.

Our proposed report to Congress, submitted to the Department of Defense and the General Services Administration in draft form on August 12, 1968, shows that commercial firms, through membership in non-profit shipper associations, are saving substantial sums of money and, in addition, are receiving other benefits such as faster transit times by consolidating small, individual shipments. We believe that the Government will realize savings of many millions of dollars annually in freight costs when a comparable Government-wide freight consolidation system is established.

In its response, the Department of Defense not only agreed with our findings but is currently initiating a test of a prototype system for consolidation of small shipments originating in the area of Philadelphia, Pennsylvania. Currently, GSA has agreed to maintain liaison with the Department of Defense on its test and to apply whatever techniques may be appropriate.

The favorable reaction of the Department of Defense and the General Services Administration to our proposal, and the testing of the system by the Department of Defense is most gratifying. However, we believe that, to fully realize the envisioned benefits, the establishment of a single joint agency will eventually be necessary for the implementation of a Government-wide freight consolidation system. Accordingly, we plan to work closely with the appropriate agencies toward establishing such a system.

This concludes our statement, Mr. Chairman, and we will be pleased to discuss any of these matters in further detail or answer any questions the Subcommittee may have on our statement.

United States General Accounting Office
Washington, D.C. 20548

APPENDIXES
to statement of
Comptroller General of the United States
before the
Subcommittee on Economy in Government
Joint Economic Committee

November 11, 1968

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DESIGN AND CONSTRUCTION

In previous hearings we have discussed our audit efforts in the civilian agency construction area and have commented on some of the recommendations and benefits resulting from our reviews. We generally find that agency management is receptive to our suggestions; nevertheless we continue to note instances where contracts were not administered adequately or where agency planning was such that desired results were not fully achieved.

Specifically, we found that the VA in administering construction contracts for new hospitals in Memphis, Tennessee, Long Beach, California, and in the District of Columbia, did not always have adequate assurance that material and workmanship were as specified. Under such conditions there is always the risk of structural deterioration and of higher than normal maintenance and repair costs. Poor design and workmanship were apparently responsible for additional costs of about \$42,000 incurred for reconstruction of deteriorated roadways at the hospital project in the District of Columbia shortly after construction ended. Other defects, however, may not manifest themselves for some time.

The VA has advised us in response to our recommendations, that a number of steps have been taken to improve its administration of construction contracts including revisions to its specifications relating to the construction of hospital roadways.

We have also found deficiencies in agency planning for its facilities. For example, the GSA's stated policy that Federal buildings be designed so as to be functionally efficient was not effectively implemented in respect of the recently constructed Washington National Records Center in Suitland, Maryland. Here it was necessary to spend about \$224,000 to

reposition some overhead duct work, lighting fixtures and fire protection sprinklers to gain storage space that should have been designed into the building. In addition, storage space was reduced by 94,000 cubic feet because of the design for placing ventilating fans and related duct work. GAS has informed us that its design criteria is being revised and that specific instructions are being developed concerning the review of proposed designs to insure that they are responsive to occupant needs.

In some of its construction projects, the VA did not adequately review architect-engineer drawings and specifications before awarding the contracts with the result that many changes became necessary during the construction period. These changes were accomplished through added work at negotiated prices. We were not able to measure the overall cost effect of these changes; however, it is fundamental that such changes do not have the benefit of competitive bidding as would have been the case had the need for the changes been detected before award of the contracts when the costs could have been included in the lump-sum contract price. The VA has established definitive written procedures, as we recommended, for the various aspects of the review of architect-engineer work.

Because of increasing mail volumes and changing transportation patterns, the Post Office Department is continually developing new facilities and seeking to improve methods of receiving, sorting and transporting mail. We noted, however, that planning for new facilities was not always properly coordinated with changes in mail handling systems. In some newly completed facilities we observed that changes made in the mechanized mail handling systems while the buildings were being constructed resulted in additional costs and in substantial delays in use of the

facilities. Our review of some facilities under construction, designed for large mechanized mail handling systems, showed that while the Department's planning was improved, more improvement is yet needed to avoid additional costs and delays in future projects and to ensure the provision of facilities having mail-processing capacities commensurate with future needs. We believe that the Department needs to

- establish, for each proposed new facility, operating plans and concepts which clearly define the changes that can be expected to occur when approved nationwide mail distribution plans are implemented;
- develop a sound system for predicting future mail volumes;
- increase the depth and scope of predesign studies; and
- expedite the program of standardizing mechanization and developing specific criteria for mail-handling equipment.

At the hearings in May 1967, we stated that we had recommended to the Department of the Interior that it make a study to determine the full extent of the differences in transmission line construction practices of the Bureau of Reclamation and the Bonneville Power Administration to determine the degree of construction coordination necessary and practicable, and adopt more uniform construction practices where possible.

Subsequent reviews by our staff have shown that such a study was not made and that although there had been some improvements, greater coordination in transmission-line design and construction practices was needed. We noted in one instance that estimated costs for adjoining transmission-line sections of comparable length but under separate Bureau and Administration responsibility differed by about \$3.7 million.

In accordance with our further proposals a task force was appointed by the Assistant Secretary -- Water and Power Development -- chaired by a member of his immediate staff to study agency practices and inconsistencies and recommend affirmative improvement policies.

The Bureau of Indian Affairs in planning for construction of employee housing units at school facilities did not adequately consider the availability of nearby private housing. As a result, of the 274 units built, 220 units costing about \$3.2 million were not justified. We also found that of 478 employee housing units constructed in isolated areas, 130 units costing about \$1.8 million were excess to the Bureau's housing requirements for school employees. The excess construction occurred primarily because the Bureau had not administered its employee housing construction program in accordance with the policies and standards established by the Bureau of the Budget for construction of Government-owned housing.

We were advised by the Department of the Interior that the problem brought into focus by our report underscored a fundamental need for more precise planning in determining the Bureau's employee housing requirements and that action had been taken toward this end.

In one district of the Corps of Engineers, we found that adequate reviews were not being made of estimates prepared by architect-engineer firms of expected quantities of excavation, embankment, or available construction materials. As it turned out the estimates which were used in the awarding of a fixed-price construction contract were faulty and the contract price of \$15.4 million was increased through negotiation by \$8.2 million. We believe that had the original estimates been more accurate about \$5.3 million of the increase could have been included in the contract award price with the Government receiving the benefit of competitive bidding.

The Department of the Army concurred, in general, in our findings and has issued instructions which if effectively implemented should reduce the necessity for contract modifications.

INCREMENTAL FUNDING PRACTICES

In our recent report to the Congress (B-164301, August 27, 1968) we stated that, during fiscal years 1966 and 1967, the Air Force Air Materiel Areas received funds for spare parts procurements in numerous increments without advance notice of the amounts and the dates the funds would be made available. While some supply problems were due to the fact that funds made available were less than those needed to satisfy computed requirements, the receipt of funds on an incremental basis created additional difficulties in the management of procurement programs in that:

- Procurements were made in less than economical quantities.
- Increased administrative costs were incurred.
- Contractors' quotations were revised upward due to delays in placing orders.

At the time of our examination, there was also evidence that some of the aircraft were not operationally ready because needed supplies had not been obtained. While supply support was generally adequate during the period covered by our examination, we believed that continuation of incremental funding could have resulted in an increased number of aircraft being not operationally ready.

During fiscal years 1966 and 1967, the Department of Defense released funds to the military departments on an incremental basis primarily to hold back a reserve for unforeseen emergency requirements in connection with rapidly expanding activities in Southeast Asia. Also, there existed some uncertainty as to the amount of additional funds that

would become available through supplemental appropriations. In fiscal year 1968 the Air Force realized both a reduction in the number of fund allocations and an improvement in providing timely notices to the Air Materiel Areas of dates and amounts of such allocations. We were also advised that similar improvements were realized by the Army and the Navy.

In our report we noted that conditions similar to those that existed in 1966 and 1967 could recur--i.e., rapidly increasing needs to meet expanding programs coupled with uncertainty as to probable levels of funding that will be available--and could again necessitate close fund control and incremental releases. In this event, we recommended that careful consideration be given by the Department of Defense and the military services to the additional costs and other adverse effects of incremental fund releases and that every effort be made to keep incremental releases to a minimum. We recommended also that as much specific information as possible be furnished to inventory management activities as to the amount of funds that will be available and a schedule of probable release dates, in order to facilitate planning of their procurement programs.

NEED FOR IMPROVEMENT IN THE PROCESSING OF REQUISITIONS FOR MATERIALS

In our report to the Congress on September 17, 1968 (B-164500) we stated that the implementation of the Military Standard Requisitioning and Issue Procedures (MILSTRIP) system has resulted in improvements in the processing of requisitions and related documents by requiring the use of standardized data codes, data elements, and document formats and by permitting extensive utilization of high speed data processing equipment. We found, however, that the maximum benefits of this system had not been realized because large numbers of requisitions contained erroneous or incompatible data and could not be processed routinely. As a result, many of the requisitions were being returned to the originators for additional information or for revision and resubmission as corrected requisitions.

We also found that the Defense Supply Agency, which had been assigned the responsibility for surveillance of the MILSTRIP system, had not fully carried out this responsibility. In our opinion, the Defense Supply Agency, through surveillance of the operation of the system on a systematic basis, could have identified the problems and directed that appropriate corrective actions be taken on a timely basis.

In connection with the November 1967 hearings, we furnished this Subcommittee with information as to the status of our review of the MILSTRIP system. We subsequently brought our findings to the attention of the Secretary of Defense in a draft report and proposed that the

Secretary give the Defense Supply Agency, or some organizational element within the Office of the Secretary of Defense, the responsibility for effecting improved management control and adequate surveillance over the MILSTRIP system. In this connection we suggested that a single organization be responsible for (1) reviewing procedures and operations and requiring that changes be made as necessary to improve operations, (2) ensuring that changes to the MILSTRIP system are uniformly implemented by the military services and the Defense Supply Agency, and (3) requiring, as appropriate, instruction and indoctrination for supply management personnel. Also, we suggested that catalog changes deemed essential to logistics management be disseminated in such a manner that the information at all levels would be compatible.

In commenting on our proposals, in a letter dated May 3, 1968, the Assistant Secretary of Defense (Installations and Logistics) stated that the Defense Supply Agency had recently organized a separate surveillance group to perform frequent on-site reviews of operations, assess adequacy of training, and make recommendations for systems and training improvements. He also stated that, in regard to catalog changes, a study was being made of the requirement for, and the frequency of, logistics management data changes.

We believe that the actions taken or to be taken should result in improvement. We plan to evaluate the effectiveness of these actions at a later time.

OPERATION FRELOC

During 1967 and 1968 we examined into various aspects of the movement of American Forces from France--Operation FRELOC. In May 1967 we issued a preliminary classified report entitled "Report on Survey of the Movement of American Forces from France," which summarized our observations based on limited work to that date. On August 7, 1968, we issued our summary report (B-161507) to the Congress on Movement of American Forces from France--(Operation FRELOC) which supplemented our previous report and summarized our overall findings with respect to Operation FRELOC.

We found that, despite the relatively short period of time available and the magnitude of the move from France, the Army and Air Force were able to relocate their personnel, supplies, and equipment in a generally effective manner. As could be expected in a situation of this nature, many difficulties arose, some of which could have been avoided by better planning and some of which were directly related to basic problems that existed prior to the move.

In our opinion, some difficulties encountered by the Army and Air Force were due to the fact that the Secretary of Defense did not approve the selection of storage and Air Force base locations until relatively late dates. The Department of Defense officials advised us that these decisions had been delayed because of problems associated with gold flow, relations with foreign governments, and the need to formulate new lines of logistical support for U. S. Forces in Europe.

The most significant problem areas that we encountered during our review were:

- Control was lost over large quantities of supplies and equipment moved from France. Inaccurate inventory records contributed to the inability of the Army and Air Force to maintain proper controls over shipments.
- Supplies were shipped to locations with inadequate storage space while, at the same time, available storage facilities were not fully utilized.
- Requirements for construction of additional ammunition storage facilities were not properly evaluated and were therefore overstated.
- Some of the fixtures and personal property removed from former French bases were not effectively utilized.
- Some usable personal property was not removed from French bases.

MANAGEMENT OF SHELF-LIFE ITEMS

In its May 1966 report, the Subcommittee on Federal Procurement and Regulation, of the Joint Economic Committee, expressed concern that previously reported (B-150417, dated April 2, 1965) weaknesses in the management of shelf-life items may be indicative of inadequacies in the management of stores inventories. As a result, the Subcommittee requested that GAO review some classes of shelf-life items. At about that time, the Assistant Secretary of Defense, Installation and Logistics, issued uniform policies and procedures for identification, control and utilization of shelf-life items (DODI 4140.27 dated November 18, 1966). In order to give the military departments and the Defense Supply Agency time to implement these procedures, the Office of the Assistant Secretary of Defense (I&L) requested that GAO suspend any reviews of shelf-life items for at least one year.

Department of Defense

Although the new procedures anticipated implementation within 120 days from the date of issuance, a limited review conducted by GAO in October 1967 indicated that the new procedures would not be fully implemented until July 1, 1968. We found that extensive revisions to existing regulations and data systems were necessary. We also found that a reporting system had not as yet been established whereby shelf-life assets excess to the needs of DOD could be reported to GSA. In view of the foregoing, we did not schedule this area for review.

On June 30, 1968, we were advised by OASD (I&L) that those portions of the subject DOD shelf-life instruction dealing with improved identification and control of shelf-life items were implemented by the military services and DSA on February 1968. We were further advised that the instructions had been amended to provide (1) standardized codes for shelf-life items specifying

type of inspection/test/restorative action to be taken and the extension of shelf-life time period after test/restorative action has been accomplished, and (2) a new system for reporting potential excesses of DOD shelf-life assets to GSA. The amended instruction was issued on September 12, 1968, and requires issuance of departmental instructions for implementation within 120 days. The instruction requires DSA to report quarterly to ASD (I&L) on the dollar value and line items of shelf-life items reported for utilization, and the dollar value and line items transferred, donated or disposed of.

It is anticipated in view of the recent amendment to subject instruction that the first quarterly report will not be received by ASD (I&L) until December 1968.

General Services Administration

In April 1967, GSA added a subpart to the Federal Property Management Regulations which prescribed policies and procedures to be followed by civil agencies for the identification, designation of useful life, and establishment of controls to minimize losses and insure maximum use of limited shelf-life stock. At about the same time, GSA issued to its regional offices parallel instructions regarding its own internal operations.

To test GSA's operations under its new internal instructions we selected for review paint and related items and visited four regions. Concurrently, GSA was working to improve its operations.

Our review disclosed that there were several problem areas. On this basis we made a number of proposals to GSA--which they substantially accepted. Acting on our proposals and on the findings

of their own internal review process, GSA has undertaken to revise its management information system to provide for reporting quantity, value, and trend of deterioration losses so that problem areas can be identified and dealt with. Also, GSA has planned actions to ensure that its regions comply with regulations and instructions aimed at improving the management of limited shelf-life stocks.

ACCOUNTING AND REPORTING SYSTEM
FOR DISPOSAL ACTIVITIES

During the past fiscal year, we examined into selected aspects of the accounting by the Department of Defense (DOD) for surplus sales proceeds and reimbursable disposal expenses. Our examination was directed primarily toward determining (1) the progress being made to provide adequate cost data through uniform accounting classifications for expenses, and (2) the nature of Defense-wide management controls over disposal operations.

We had previously examined into selected transactions relating to the disposal of excess and surplus personal property by DOD during fiscal year 1965 at the request of Congressman Thomas B. Curtis of this Committee and reported our finding to him in March 1966.

In general, DOD has authorized the military services to utilize surplus sales proceeds to offset disposal expenses. The implementing instructions of the military services were not always uniform in identifying the types of expenses which were reimbursable from surplus sales proceeds. Also, the lack of effective direction and control of the surplus property disposal program and the accounting and reporting thereof, resulted in management officials not being provided with adequate information to properly appraise the various disposal functions and to identify conditions warranting corrective action. The availability of reliable management data is particularly important in this program where there is no limitation on the amount of disposal sales proceeds that can be used to finance disposal operations.

Our latest review indicated that steps have been taken to correct the deficiencies identified during our prior review. The Assistant Secretary of Defense (Comptroller) issued an instruction (effective July 1, 1968) designed to provide the needed uniformity in the definitions of disposal expenses. The Defense Supply Agency, which is responsible for administering the defense disposal program, has indicated that the instruction will provide information for preparing more realistic reports depicting program status and trends and will enable that organization to more realistically evaluate the disposal program.

COMPETITION IN MILITARY PROCUREMENT
FISCAL YEARS 1964 TO 1968

| <u>Fiscal year</u> | <u>Total procurement (billions)</u> | <u>Formally advertised (percent)</u> | <u>Negotiated (percent)</u> | | <u>Total</u> |
|--------------------|-------------------------------------|--------------------------------------|---|---|--------------|
| | | | <u>Multiple sources solicited (competitive procedure)</u> | <u>Single source solicited (noncompetitive procedure)</u> | |
| 1964 | \$28.2 | 14.4 | 30.7 | 54.9 | 85.6 |
| 1965 | 27.4 | 17.6 | 31.1 | 51.3 | 82.4 |
| 1966 | 37.2 | 14.2 | 35.8 | 50.0 | 85.8 |
| 1967 | 43.4 | 13.4 | 34.1 | 52.5 | 86.6 |
| 1968 | 42.8 | 11.5 | 30.6 | 57.9 | 88.5 |

Source: Military Prime Contract Awards and Subcontract Payments or Commitments, Office of the Secretary of Defense - Fiscal Years 1964-1968.

ACCOUNTING SYSTEM FOR OPERATIONS (DEPARTMENT OF DEFENSE)

In accordance with the responsibilities placed upon us by the committee of conference on H. R. 17734, Second Supplemental Appropriations Bill, 1968, we are collaborating with the Department of Defense in the implementation of its new accounting system for operations.

We are participating at 45 selected sites of the Army, Navy, Air Force, Marine Corps, and Defense Supply Agency in the implementation of the new system and surveying its operation. At each site our staff is reviewing one or more of the following segments of implementation:

- Budget formulation and execution
- Administrative control of operating budgets
- Accounting
- Service units
- Reporting

Problems identified in the implementation of the system are dealt with by suggested improvements at the site if such problems have only local significance. If problems or improved methods have system-wide significance, they are referred to our Washington staff so they may be considered at other sites and other services and, in addition, such problems are discussed with appropriate officials of the military services and the Department of Defense.

Assistance in implementation of the new accounting system is also being rendered at various sites by the several internal audit agencies of the Department of Defense. We are coordinating with these agencies both centrally and at individual locations so that we may avoid unnecessary duplication of effort and so that we may freely exchange information to assist implementation.

In addition to the above we are furnishing members of our Washington staff to serve on the Department of Defense survey team. This team is headed up by representatives from the Office of the Assistant Secretary of Defense (Comptroller) and includes representatives of the Bureau of the Budget, the General Accounting Office, and the military services.

This team, which was established by the Assistant Secretary of Defense (Comptroller) with concurrence of participating agencies, was designed to provide a means to:

- a. Focus attention on implementation of the system
- b. Keep responsible offices fully informed of progress of implementation
- c. Identify ideas and innovations that will improve the system
- d. Get necessary corrections in the system made promptly.

The team has completed visits to the headquarters of the military services and the Defense Supply Agency along with proximate installations and to selected installations in the Northeastern United States. Two reports have been issued to date on these visits. The reports identify problems and areas for follow-up.

At present the team is visiting selected installations in the central United States. Subsequent visits are planned at selected installations in Europe, Pacific and Alaska, Southeastern United States, Western United States, and the Southern Area (Canal Zone, Puerto Rico, etc.).

Representatives of the General Accounting Office participate in the team visits, offer suggestions, and make contributions in the writing and editing of the team reports. We also plan to follow-up on actions taken to resolve problems revealed by the visits and to disseminate innovations to improve the system implementation.